

Idaho Economic Forecast

DIRK KEMPTHORNE, Governor

Division of Financial Management

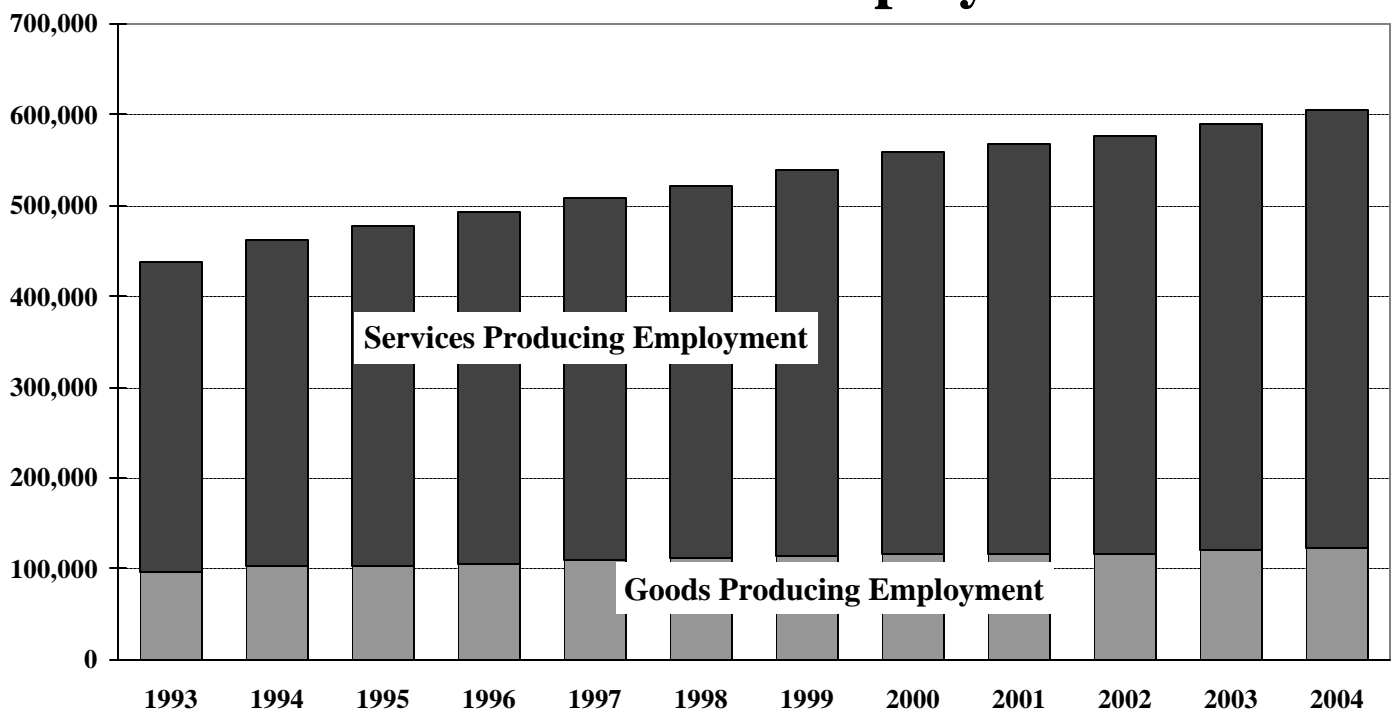
Vol. XXIII, No. 2

ISSN 8756-1840

April 2001

- **Forecast 2000-2004**
- **Uncertainties in Predicting Federal Budget Surpluses**
- **Alternative Forecasts**

Idaho Nonfarm Employment



**IDAHO
ECONOMIC
FORECAST
2000 - 2004**

State of Idaho
DIRK KEMPTHORNE
Governor

*Costs associated with this publication are available
from the Division of Financial Management
in accordance with Section 60-202, Idaho Code.*

04-01/385/010200-180-4001

PREFACE

Idaho has entered its second century of statehood on solid economic ground. After nearly a decade of stop-and-start economic performance, the 1990s closed with a much-welcomed economic expansion. While not as sharp as the boom years of the 1970s, today's employment and income growth are exceptional in comparison to the 1980s. Much of the current expansion results from Idaho's successful adjustment (and sometimes difficult restructuring) of its key basic industries.

The State's traditional industries such as lumber and wood products, food processing, and mining—have become more competitive. The high-tech sector, which includes Hewlett-Packard, Zilog, and Micron Technology, has bucked recent national trends and undergone substantial expansion. In addition, the tourism and travel sectors have benefited from past investments in such projects as the Coeur d'Alene Resort, the convention centers in Boise and Nampa, and the Kellogg Gondola. Thus, the restructured Idaho economy is better positioned to exploit growth opportunities that will arise in this decade, and is expected to sustain solid growth well through the first decade of the new millennium.

A particularly satisfying aspect of the Gem State's passage into the 1990s is the much broader base of economic health in Idaho today. Tourism, high-tech manufacturing, and the commercial sectors are thriving. After persevering through hard times, more Idahoans are enjoying the benefits of the state's economic success on a wide geographical basis. Many of Idaho's rural communities that lagged urban growth rates during the 1980s have recently grown. And although nearly two-thirds of Idaho cities lost population during the previous decade, many are now rebounding.

While many changes are taking place today, other traditional factors still hold firm—most notably, Idaho's economy remains directly tied to its resource base. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This heavy dependency on natural resources will bring a host of challenges as Idaho enters the new century. These include competition among agriculture, fisheries, and expanding population, for water and energy; the environmental impacts of the economically important mining, timber, agricultural, and tourism industries; and the many other pressures of an expanding population on the state's natural and fiscal resources.

Other factors that are external to the state's economy will present challenges this decade to public and private decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Engineering and Environmental Laboratory near Idaho Falls and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

Division of Financial Management

700 W. Jefferson, Room 122
P.O. Box 83720
Boise, Idaho 83720-0032
(208) 334-3900

Economic Analysis Bureau

Michael H. Ferguson, Chief Economist
Derek E. Santos, Economist

TABLE OF CONTENTS

Preface	iii
Introduction	2
Executive Summary.....	5
Idaho and U.S. Forecast Summary Tables.....	6
Forecast Description:	
National.....	8
Idaho.....	14
Forecasts Comparison	22
Alternative Forecasts.....	24
Feature Article	
Uncertainties in Projecting Federal Budget Surpluses	27
Forecast Detail.....	33
Annual Forecast.....	34
Quarterly Forecast.....	48
Appendix.....	63
DRI U.S. Macroeconomic Model.....	64
Idaho Economic Model.....	66
Equations.....	68
Endogenous Variables.....	72
Exogenous Variables.....	74

INTRODUCTION

The national forecast presented in this publication is the March 2001 Standard and Poor's DRI baseline forecast of the U.S. economy. The January 2001 *Idaho Economic Forecast* is based on the November 2000 DRI national forecast.

Historical and predicted levels for Idaho total nonfarm employment and its goods-producing and services-producing sectors are featured in the graph on the cover of this forecast. Idaho total nonfarm employment is expected to rise 1.5% in 2001, 1.7% in 2002, 2.3% in 2003, and 2.6% in 2004. Employment in the goods-producing category should contract 0.2% in 2001, expand 1.5% in 2002, 2.1% in 2003, and 2.3% in 2004. Services-producing employment is projected to advance 2.0% this year, 1.8% next year, 2.3% in 2003, and 2.6% in 2004.

FEATURE

The emergence of large projected federal budget surpluses has sparked a vigorous political debate over how these funds should be used. Participants in the debate often use the nonpartisan Congressional Budget Office (CBO) baseline numbers for determining the size of the surplus. Though a point estimate is adopted, budget projections are subject to considerable uncertainty. This article discusses the nature of this uncertainty and presents some alternative projections constructed by CBO to illustrate the range of possible budget scenarios that might be observed over the next decade. Kevin J Lansing wrote this article. He is a Senior Economist with the Federal Reserve Bank of San Francisco.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. DRI examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are described in the text.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1985 to 2004 and for every quarter from 1998 through 2003. The solution of the Idaho Economic Model for this forecast begins with the fourth quarter of 2000.

Descriptions of the DRI U.S. Macroeconomic Model and the Idaho Economic Model are provided in the Appendix. Equations of the Idaho Economic Model and variable definitions are listed in the last pages of this publication.

CHANGES

The employment data that appear in this publication are based on monthly estimates provided by the Idaho Department of Labor. The historical employment numbers extend through the end of 2000. The estimates for the first nine months of 2000 have been finalized. The estimates for the last three months of that year are preliminary. All of these data have been adjusted and converted into quarterly estimates by the Division of Financial Management (DFM).

These data show that Idaho nonfarm employment was weaker during the first half of last year than had been previously estimated. Employment was down 157 in the first three months of 2000 and off by 1,354 in the next three months of 2000. The situation reversed in the third quarter, with the new estimate 2,293 above the previous estimate.

The tables in this forecast include the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) estimates of Idaho quarterly personal income through the third quarter of 2000. The estimates of Idaho Quarterly income for the first and second quarters of 2000 have been revised. The BEA will release its next round of Idaho personal income estimates in late April 2001.

The *Idaho Economic Forecast* is available on the Internet at <http://www.state.id.us/dfm/econinfo.htm>. Readers with any questions should contact Derek Santos at (208) 334-3900 or at dsantos@dfm.state.id.us.

SUBSCRIPTIONS

You can access the *Idaho Economic Forecast* for free at <http://www.state.id.us/dfm/econinfo.htm>.

Hardcopy subscription rates for the *Idaho Economic Forecast*, which is published four times a year, are as follows:

Idaho State Government	No Charge
Idaho Resident	\$10.00 per year
Non-Idaho Resident	\$20.00 per year

To subscribe, send the following information and appropriate payment to:

**Idaho Economic Forecast
Division of Financial Management
700 W. Jefferson, Room 122
P.O. Box 83720
Boise, Idaho 83720-0032**

NAME _____

ORGANIZATION _____

MAILING ADDRESS _____

CITY _____

STATE _____

ZIP CODE _____

Subscriber Category Idaho State Government _____

Idaho Resident _____

Non-Idaho Resident _____

Enclosed is payment of \$ _____ for _____ years.